First Read

Arashi Vision

2Q26 earnings turned negative on high memory costs, competition, and drone investment

Equities

China

Consumer Electronics

12-month rating	**Neutral**
12m price target	**Rmb124.00**
	Prior : Rmb126.00
Price (28 Aug 2026)	**Rmb119.30**

RIC: 688775.SS **BBG:** 688775 CH

Trading data and key metrics

52-wk range	Rmb349.80-116.63
Market cap.	Rmb47.8b/US$7.12b
Shares o/s	401m (ORDA)
Free float	100%
Avg. daily volume ('000)	3,604
Avg. daily value (m)	Rmb488.5
Common s/h equity (12/26E)	Rmb6.11b
P/BV (12/26E)	7.8x
Net debt to EBITDA (12/26E)	0.2x

EPS (UBS, diluted) (CNY)

	From	To	% ch	Cons.
12/26E	1.62	0.67	-59	2.44
12/27E	2.46	2.41	-2	4.43
12/28E	4.21	4.15	-1	7.58

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Q: How did the results compare with expectations?

A: Arashi Vision (Insta360) reported 1H26 results: revenue/net profit were Rmb5.5bn/30mn (+50%/-94% YoY), implying 2Q26 revenue/net profit changed by +31%/-116% YoY. 2Q26 revenue was slightly below our expectation (UBS-Se: +35% YoY), but earnings turned negative and missed our expectation (UBS-Se: -73% YoY). We think key factors in earnings turning negative were rising chip costs and competition as mentioned in our preview report, while loss on camera drones was greater than we expected.

Key highlights from the result

1) 2Q26 revenue decelerated to +31% YoY on a high base (+58% YoY in 2Q25), which we think was mainly due to limited drive from new product Luna Ultra (launched in June) and intense competition with DJI. **2) 2Q26 GPM dropped 12ppts YoY to 38%** amid chip cost hike and intense competition, which is in-line with our expectation. **3) Higher-than-expected operating expenses:** Selling & marketing/ R&D expense ratios increased 3/4ppts YoY to 19%/18% YoY, which we think is mainly due to high investment for the new drone business to ramp-up, in addition to R&D for new products such as upgraded cameras, new drone product, and interchangeable lens camera. Several Antigravity related subsidiaries disclosed in H126 report were all at loss. For example, Shenzhen Yingling Technology reported 1H revenue of Rmb229mn and a net loss of Rmb290mn. As Arashi holds 58.2% shares of Shenzhen Yingling Technology, it shared loss of c. Rmb169mn. **4) Chip procurement contributed to operating cash outflow:** 1H/2Q operating cash outflow was Rmb2.8bn/1.3bn, mainly due to inventory preparation amid the material cost upcycle. Arashi strategically procured about Rmb2bn of memory chips in 1H26. **5) Rising inventory:** Inventory increased from Rmb2.9bn by end-2025 to Rmb6.2bn by end 1H26 due to memory chip inventory build-up and preparation for new product launches, of which Rmb1.7bn was about memory chips while finished goods inventory increased by 38.17%. **6) 1H26 FX loss was about Rmb55mn**, which could drag margins by c.1ppts.

Valuation: PT cut from Rmb126.00 to Rmb124.00; Neutral

We cut 2026-28E earnings by 59%/2%/1%, mainly to reflect increased operating expenses and loss-making camera drone business in 2026. We lower 2026 earnings estimates based on 2Q26 results, but we remain confident of Arashi's growth outlook in 2027 based on strong product launch pipeline. Our new SOTP-based PT values: 1) the camera segment at Rmb94 based on 39x 2027E PE, on 149% EPS CAGR in 2026-28E due to low base in 2026; and 2) the drone segment at Rmb30, based on 9x 2027E P/S.

Highlights (Rmbm)	12/23	12/24	12/25	12/26E	12/27E	12/28E	12/29E	12/30E
Revenues	3,636	5,574	9,741	14,046	18,913	24,876	31,325	37,992
EBIT (UBS)	913	1,008	838	157	828	1,447	2,259	3,053
Net earnings (UBS)	830	995	929	269	967	1,664	2,593	3,527
EPS (UBS, diluted) (Rmb)	2.30	2.76	2.44	0.67	2.41	4.15	6.47	8.80
DPS (net) (Rmb)	0.00	0.00	0.25	0.07	0.24	0.42	0.66	0.89
Net (debt) / cash	813	262	1,295	(53)	319	1,228		

Profitability/valuation	12/23	12/24	12/25	12/26E	12/27E	12/28E
EBIT (UBS) margin %	25.1	18.1	8.6	1.1	4.4	5.8
ROIC (EBIT) %	221.6	68.5	25.3	3.2	13.8	22.3
EV/EBITDA (UBS core) x	-	-	>100	>100	47.7	27.9
P/E (UBS, diluted) x	-	-	98.8	NM	49.5	28.8
Equity FCF (UBS) yield %	-	-	1.1	(2.8)	1.0	2.2
Dividend yield (net) %	-	-	0.1	0.1	0.2	0.4

Source: Company accounts, LSEG Eikon, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price tha
price of Rmb 119.30 on 28-Aug-2026

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INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 4.

Forecast returns

Forecast price appreciation	3.9%
Forecast dividend yield	0.1%
Forecast stock return	4.0%
Market return assumption	6.8%
Forecast excess return	-2.8%

Company Description

Arashi Vision engages in the research and development, production and sales of smart imaging devices such as panoramic cameras and sports cameras under the Insta360 brand. It was ranked as the number 1 in the global panoramic camera market and number 2 in action camera market in 2023, per Frost & Sullivan. Arashi also plans to enter into other related areas such as consumer-grade camera drones.

Valuation Method and Risk Statement

Our price target is based on an SOTP multiple.
Downside risks for Arashi include: 1) weaker-than-expected demand due to weak consumer sentiment; 2) rising price competition in the domestic and overseas markets; 3) a slower-than-expected ramp-up in new product sales; 4) slower-than-expected global expansion progress; 5) greater-than-expected cost increase; and 6) foreign exchange losses due to currency fluctuations.
Upside risks for Arashi include: 1) stronger-than-expected demand due to positive consumer sentiment; 2) mild price competition in the domestic and overseas markets; 3) a faster-than-expected ramp-up in new product sales; 4) faster-than-expected global expansion progress; 5) limited cost increase; and 6) foreign exchange gains due to currency fluctuations.

Quantitative Research Review

UBS Global Research publishes a quantitative assessment of its analysts' responses to certain questions about the likelihood of an occurrence of a number of short term factors in a product known as the 'Quantitative Research Review'. The views for this month can be found below. Views contained in this assessment on a particular stock reflect only the views on those short term factors which are a different timeframe to the 12-month timeframe reflected in any equity rating set out in this note. For previous responses please make reference to (i) previous UBS Global Research reports; and (ii) where no applicable research report was published that month, the Quantitative Research Review which can be found at https://neo.ubs.com/quantitative, or contact your UBS sales representative for access to the report or the Quantitative Research Team on ubs-quant-answers@ubs.com. A consolidated report which contains all responses is also available and again you should contact your UBS sales representative for details and pricing or the Quantitative Research Team on the email above.

Arashi Vision

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting tougher 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	2
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	No Catalyst
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	